

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CIAE-00 EB-08
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 SS-15 STR-07 CEA-01 SSO-00 INRE-00
ICAE-00 NSCE-00 PA-01 /099 W
-----052466 091804Z /64

O R 091727Z MAY 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 5955
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LUXEMBOURG
AMEMBASSY ROME
AMEMBASSY TOKYO
USDOC WASHDC
USMISSION GENEVA
USMISSION USNATO
AMCONSUL BELFAST
AMCONSUL EDINBURGH

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

E.O. 11652: N/A
TAGS: PINT, PGOV, EFIN, UK
SUBJECT: GOVERNMENT LOSES ON FINANCE BILL

REF: LONDON 7111 (NOTAL)
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SUMMARY: THE GOVERNMENT LOST THE FIRST KEY VOTE ON
THE FINANCE BILL MAY 8 BY A MARGIN OF EIGHT VOTES WHEN
OPPOSITION PARTIES UNITED TO APPROVE AN AMENDMENT
REDUCING THE STANDARD INCOME TAX RATE BY ONE PERCENT.
THE ULSTER UNIONISTS, WHOSE VOTES WERE PIVOTAL, SUPPORTED
THE AMENDMENT. DESPITE CONSERVATIVE CALLS FOR ITS

RESIGNATION, THE GOVERNMENT HAD EXPLICITLY DENIED IT WOULD REGARD A DEFEAT A MATTER OF CONFIDENCE AND INDICATED IT WOULD SOLDIER ON. WE WILL REPORT FURTHER ON THE IMPLICATIONS OF THIS DEVELOPMENT LATER IN THE WEEK, FOLLOWING THE VOTES ON OTHER PENDING AMENDMENTS. END SUMMARY.

1. THE GOVERNMENT MAY 8 LOST THE FIRST KEY VOTE TO AMEND THE FINANCE BILL BY 312 TO 304 WHEN OPPOSITION PARTIES UNITED BEHIND A MOTION TO REDUCE THE STANDARD INCOME TAX RATE BY ONE PERCENT TO 33 PERCENT. BUT THE VOTE WAS ANTI-CLIMATIC -- THE OUTCOME HAD BEEN DECIDED FOUR HOURS EARLIER WHEN ULSTER UNIONIST ECONOMIC SPOKESMAN ENOCH POWELL TOLD COMMONS THAT HE AND HIS SIX COLLEAGUES WOULD SUPPORT THE AMENDMENT. WITH THE ULSTER UNIONIST VOTE IN TOW, THERE WAS NO DOUBT THAT THE CONSERVATIVE-SPONSORED AMENDMENT WOULD BE CARRIED, AS IT HAD ALREADY BEEN ASSURED THE SUPPORT OF THE TORIES, LIBERALS, THE SCOTTISH AND WELSH NATIONALISTS (ONE SNP MP, HOWEVER, ABSTAINED) AND SEVERAL "INDEPENDENT" UNIONISTS. THERE WERE THREE PAIRS, ONE LABOR MINISTER (JUDITH HART) REPORTEDLY SLEPT THROUGH THE DIVISION, AND ONE LABOR MP WAS TOO ILL TO VOTE, LEAVING TWO ANTICIPATED LABOR VOTES UNACCOUNTED FOR.

2. IMMEDIATELY FOLLOWING ANNOUNCEMENT OF THE RESULT,
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CONSERVATIVE ECONOMIC SPOKESMAN SIR GEOFFREY HOWE DEMANDED THAT THE GOVERNMENT RESIGN, POINTING OUT THAT NO GOVERNMENT HAD EVER BEFORE BEEN "DENIED SUPPLY" AND REMAINED IN POWER. CALLAGHAN AND CHANCELLOR HEALEY, HOWEVER, EARLIER INDICATED THAT THE GOVERNMENT WOULD NOT CONSIDER THIS ISSUE A CONFIDENCE MATTER. HEALEY ALSO SUGGESTED THE GOVERNMENT WOULD NOT MAKE ANY FINAL DECISIONS ON HOW IT WOULD RESPOND TO THE AMENDMENT (AND OTHER POSSIBLE CHANGES IN THE BILL) BEFORE THE

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TREASURY DEPT WASHDC IMMEDIATE

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REPORT STAGES IN JULY. MOREOVER, HE SUGGESTED ANY
ACTION OFFSET THE LOST REVENUE -- ESTIMATED AT 340
MILLION POUNDS -- WOULD FALL "MOST HEAVILY ON THE
SHOULDERS OF THOSE MOST ABLE TO BEAR IT" AND WOULD BE
DESIGNED TO MINIMIZE EFFECTS ON THE COST OF LIVING --
INCREASED COMPANY TAXATION, HIGH STAMP DUTIES AND
INCREASE IN EMPLOYERS' NATIONAL INSURANCE CHARGES WERE
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MENTIONED AS POSSIBLE OPTIONS THE GOVERNMENT WOULD
CONSIDER.

3. IN ADDITION TO LAST NIGHT'S DEFEAT, THE GOVERNMENT
FACES THE PROSPECT OF BEING DEFEATED ON TWO MORE TORY
AMENDMENTS WHICH WOULD REDUCE TAX RATES AT THE HIGHER
INCOME LEVELS AND WHICH ARE EXPECTED TO BE VOTED UPON
MAY 10. IF APPROVED, THESE AMENDMENTS WOULD INCREASE
THE PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) BY
ROUGHLY 160 MILLION POUNDS, INCREASING PRESSURE ON

HEALEY TO ANNOUNCE A GOVERNMENT PLAN TO INCREASE REVENUE FROM OTHER SOURCES. THE OUTLOOK ON THESE VOTES, FOR THE MOMENT, REMAINS UNCERTAIN -- WHILE THE CONSERVATIVES SEEM TO BE ASSURED OF LIBERAL SUPPORT AND CAN PROBABLY COUNT ON HELP FROM THE ULSTER UNIONISTS, THE PRESS REPORTS THE TWO NATIONALIST PARTIES HAVE NOT YET TAKEN A FIRM DECISION.

4. COMMENT: OUR INITIAL SOUNDINGS SUGGEST THAT THE GOVERNMENT HAS NO INTENTION OF GOING TO THE POLLS OVER THIS ISSUE, NOR DOES THERE APPEAR TO BE MUCH LIKELIHOOD THE TORIES WILL PUT DOWN A MOTION OF NO CONFIDENCE. IF, HOWEVER, THEY SHOULD DO SO, WE HAVE NO REASON TO BELIEVE THE LIBERALS WOULD FAIL TO HONOR THE TERMS OF THEIR PACT AND SUPPORT THE GOVERNMENT. THE POSITIONS OF THE ULSTER UNIONISTS AND THE SNP ARE ALSO INDEFINITE ENOUGH TO CONSIDER THEM UNLIKELY TO SUPPORT A NO-CONFIDENCE MOTION. WE SHALL CONTINUE OUR EFFORTS TO ASSESS THE VARIOUS IMPLICATIONS OF THESE DEVELOPMENTS AND REPORT MORE FULLY FOLLOWING THE ANTICIPATED MAY 10 VOTES.

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